SASKATCHEWAN FOREST PRODUCTS CORPORATION

ANNUAL REPORT 1990

91-04326/

46th ANNUAL REPORT
SASKATCHEWAN FOREST PRODUCTS CORPORATION
YEAR ENDED OCTOBER 31, 1990

Regina, Saskatchewan
February 27, 1991

To Her Honour
The Honourable Sylvia Fedoruk
Lieutenant Governor of the Province of Saskatchewan

Madam:

I have the honour to submit herewith the annual report of the Saskatchewan Forest Products Corporation for the year ended October 31, 1990 including the financial statements therefore, duly certified by the Corporation's auditors and in the form approved by the Treasury Board, all in accordance with The Crown Corporations Act, 1978.

I have the honour to be, Madam.

Your obedient servant,

George McLeod
Minister Responsible for the
Saskatchewan Forest Products
Corporation

BOARD OF DIRECTORS

Honourable George McLeod, Chairman of the Board

Mr. Armand Quessy, Debden

Mr. Alfred Sauder, Carrot River

Mr. Arnold Foss, Pierceland

Mr. Y. Don Elliott, Christopher Lake

SECRETARY TO THE BOARD

Mr. Robert B. Emigh, Saskatoon

CORPORATION OFFICERS AND MANAGEMENT

Mr. Dale Vizina	General Manager
Mr. Fred Hachey	Controller
Mr. Dale Vizina	Woodlands Manager
Mr. Henry A. Peters	Marketing Manager

DIVISION MANAGEMENT

Mr. Roland St. Louis	Manager, Carrot River Sawmill
Mr. Lenard Pelletier	Manager, Hudson Bay Plywood Plant

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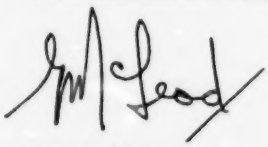

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Report of the General Manager

Economic conditions in Canada and the USA declined in the last half of 1990 resulting in severely depressed markets and prices for wood products. These conditions were experienced in 1981-82 and once again led to a severe curtailment in production for the industry. The plywood industry experienced a disastrous last half of the year causing permanent closure of several mills in Western Canada.

The Corporation operated the same mills as last year: one dimension sawmill at Carrot River and the plywood mill in Hudson Bay. The plywood plant was below average production due to a plant closure of two months, however, the sawmill ran at normal production supplying wood chips as a by-product to the Weyerhaeuser pulpmill. The Corporation remains one of the larger employers and wood processors in the province. The Corporation's labour contract with the IWA Canada Local 1-184 expired on March 31, 1990 and has been renegotiated. The new agreement will remain in effect until March 31, 1993.

Marketing

As reflected in the introduction, the markets were the worst since 1981-82 with prices steadily declining over the last half of the year to very low levels resulting in losses for the Forest Industry. Housing starts were down in North America lowering the demand and market prices for Forest Products.

Manufacturing

The sawmill operated normally with no scheduled shut downs. The plywood plant at Hudson Bay was closed for eight weeks due to adverse plywood markets resulting in a 18% decline in production from 1989.

Report on Operations

Hudson Bay Plywood Plant

Plant Production was predominantly Spruce plywood with small amounts of Trembling Aspen plywood being produced. Markets were reasonably good until May, when prices started to decline resulting in a plant closure at the end of June for eight weeks.

Due to the mill closure, plywood production was down from 1989 level of 82,989 M 3/8 to 68,160 M 3/8.

Employment averaged 163 hourly and 12 salaried employees for a total payroll of $5.8 million.

Carrot River Sawmill

The sawmill operated at capacity on a one shift basis during the year, with the exception of the period March 17th to May 11th when a second shift was in operation to reduce log yard inventory.

Sawmill capital expenditure for the year was the construction of a small log line to enable the Corporation to use small wood residues from the Hudson Bay Peeler Bolt Logging Operations.

Total lumber production was 25,597 million fbm. compared to a budgeted production of 25,000 million fbm.

Employment averaged 57 hourly employees and 3 salaried employees. Total payroll was $2.5 million.

Woodlands

Logging operations in the Carrot River area during 1990 continued in Spruce Budworm infested stands and also the salvaging of scattered timber to make way for silvicultural projects planned by Saskatchewan Parks and Renewable Resources.

The Corporation's outright purchase policy of White Spruce sawtimber and peeler bolt material, from small operators and private land owners was continued through out the winter season.

During the latter half of the 1990 year the Corporation compiled logging plans for the Hudson Bay operation and hired eighteen contractors to produce peeler bolts for Hudson Bay and small logs residues for the Carrot River operation.

The Corporation continues to have a successful safety program with lost time accidents very minimal.

Financial

The Corporation recorded a loss of $128 Thousand on consolidated sales of $20.6 million. Decreased revenues was a result of the plywood mill closure for two months and lower prices for both plywood and lumber from 1989 levels.

Capital expenditures for the year were $1.33 million. There were no loans outstanding at year end. Interest expense for the year was nil compared to $407 thousand in 1989.

The Outlook for 1991

There is guarded optimism for the 1991 housing industry and so for the Forest Industry as well. A number of forest companies went out of business in 1990 and another such year would spell the demise of many more in 1991. Should interest rates fall to a more reasonable level and confidence return to the economy, then increased housing starts may revive the financially troubled Forest Industry.

Mr. Dale Vizina
General Manager
Saskatchewan Forest Products Corporation

AUDITORS' REPORT

December 7, 1990

AUDITORS' REPORT

To the Members of the
Legislative Assembly of Saskatchewan

We have audited the consolidated statement of financial position of Saskatchewan Forest Products Corporation as at October 31, 1990 and the consolidated statements of operations and deficit and changes in financial position for the year then ended. These consolidated financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the corporation as at October 31, 1990 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Price Waterhouse

Chartered Accountants

Saskatoon, Saskatchewan

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note Reference	October 31 1990	1989
		(In Thousands)	
ASSETS			
Current assets:			
Cash on deposit		$ 5,034	$ 3,514
Accounts receivable		2,395	3,621
Prepaid expenses		163	133
Inventories		3,088	4,671
		10,680	11,939
Property, plant and equipment	3	11,073	10,691
		$ 21,753	$22,630
LIABILITIES AND PROVINCE'S EQUITY			
Current liabilities			
Accounts payable and accrued liabilites		$ 1,393	$ 2,142
Province of Saskatchewan's equity			
Equity advances	4	40,200	40,200
Deficit		(19,840)	(19,712)
		20,360	20,488
		$21,753	22,630

(See accompanying notes)

CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT

	Note Reference	Year ended October 31 1990	1989
		(In Thousands)	
Revenue			
Sales of forest products		$ 20,597	$25,424
Expenses			
Operating costs	7	19,549	21,396
Interest on long-term notes		-	306
Interest on long-term loans		-	101
Depreciation and amortization		757	791
Selling, general and administrative		419	841
		20,725	23,435
Earnings (loss) before discontinued operations		(128)	1,989
Loss from discontinued operations		-	(612)
Net earnings (loss) for the year		(128)	1,377
Deficit, beginning of year		(19,712)	(21,089)
Deficit, end of year		$(19,840)	$(19,712)

(See accompanying notes)

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Note Reference	Year ended October 31 1990	1989
		(In Thousands)	
Cash provided by (used in) operating activities			
Earnings (loss) before discontinued operations		$ (128)	$ 1,989
Add charges to operations not requiring a current cash payment			
Depreciation and amortization		757	791
Loss on sale of property, plant and equipment (before discontinued operations)		6	6
		635	2,786
Discontinued operations		-	482
Net change in non-cash working capital balances related to operations		2,030	1,537
		2,665	4,805
Cash provided by (used in) investment activities			
Proceeds from sale of property, plant and equipment (before discontinued operations)		187	12
Additions to property, plant and equipment	3	(1,332)	(2,360)
		(1,145)	(2,348)
Cash provided by (used in) financing activities			
Issuance of long-term notes		-	1,500
Reduction of long-term notes		-	(4,628)
Reduction of short-term loans		-	(16,570)
Equity advance from Crown Investments Corporation of Saskatchewan	4	-	20,088
		-	390
Net increase in cash during the year		1,520	2,847
Cash on deposit, beginning of year		3,514	667
Cash on deposit, end of year		$ 5,034	$ 3,514

(See accompanying notes)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 1990

1. Summary of accounting policies:
This summary of significant accounting policies is a description of the accounting methods and practices that have been used in the preparation of these consolidated financial statements.

Consolidation principles -
These consolidated financial statements include the accounts of the corporation's wholly-owned subsidiary, Northern Forest Operations Ltd.

Inventories -
Inventories of logs and mill supplies are valued at the lower of cost and replacement cost. Inventories of lumber, plywood and treated products are valued at the lower of average cost and net realizable value. Average cost includes appropriate production overheads.

Property, plant and equipment -
Property, plant and equipment are stated at cost and are depreciated over their estimated useful lives primarily on the diminishing-balance basis at the following rates:

Buildings	5-10%
Machinery and equipment	6.7-10%
Vehicles	15%
Site improvements	4%
Office equipment	10%
Roads	10%

2. Status of Saskatchewan Forest Products Corporation:

The corporation was established by Order-in-Council 1899 of 1949 and continues under the provisions of The Crown Corporations Act. These financial statements will be consolidated in the accounts of the Crown Investments Corporation of Saskatchewan.

3. Property, plant and equipment:

	1990	1989
	(In Thousands)	
Machinery and equipment	$ 12,182	$ 11,091
Building and site improvements	3,379	3,493
Land	802	827
Roads and spur tracks	344	344
	16,707	15,755
Less: Accumulated depreciation	5,634	5,064
	$ 11,073	$ 10,691

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 1990

4. The Province of Saskatchewan's equity:

The Province of Saskatchewan's equity in the corporation is made up of equity advances by the Crown Investments Corporation of Saskatchewan to the corporation since its inception, less amounts repaid or forgiven. These advances are repayable at the discretion of the Crown Investments Corporation of Saskatchewan and do not bear interest. The deficit represents accumulated earnings and losses of the corporation since the date of the reorganization on November 1, 1977.

5. Contingencies:

Contingent liability -
The corporation is assessing the restoration of its two former treatment plant properties. The estimated costs to restore one property have been recorded. With regards to the other property, it is not possible to determine what the restoration costs will be and accordingly, no further provision has been made in the consolidated financial statements. Such costs will be accounted for as a charge to operations of the applicable period.

There are other various lawsuits and claims that are pending by and against the corporation. It is the opinion of management that final determination of these claims will not materially effect the financial position or the results of operations of the corporation. Any settlements resulting from the resolution of these contingencies will be accounted for as charges to operations in the period in which settlement occurs.

Contingent gains -
Pursuant to the purchase agreement between the corporation's wholly-owned subsidiary, Northern Forest Operations Ltd., and the Province of Saskatchewan dated February 27, 1986, compensation may be sought from the Province for losses arising from certain operations subsequent to October 31, 1985.

No provision has been made in the consolidated financial statements for any additional compensation which may be recovered. Any subsequent settlement will be accounted for as a credit to operations in the period in which the settlement occurs.

6. Related party transactions -

Included in these consolidated financial statements are income and expense amounts resulting from routine operating transactions conducted at prevailing market prices with various Saskatchewan Crown controlled departments, agencies and corporations with which the corporation is related.

Account balances resulting from these transactions are included in the consolidated statement of financial position and are settled on normal trade terms.

Other amounts due to related parties and the terms of settlement are described separately in the consolidated financial statements and the notes thereto.

7. Operating costs

The corporation has included, in operating costs, a valuation provision of $210,000 for its inventories of peelers to reduce the carrying value to their replacement cost. During the year, the termination of peeler procurement arrangements resulted in the reduction of the corporation's actual log costs. This provision corrected the corporation's average cost valuation for certain year-end inventories.